

CRS Report for Congress

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International Financial Institutions: Funding U.S. Participation

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Summary

Since 1945, the United States has contributed \$98 billion to the IMF and the multilateral development banks (MDBs) and it has subscribed an additional \$96.6 billion in callable capital. The procedures the United States uses to fund its financial support for these institutions varies from organization to organization and are described in this report. The report will not be updated.

The United States is a member of six international financial institutions (IFIs): the International Monetary Fund (IMF), World Bank, Asian Development Bank (AsDB), African Development Bank (AfDB), European Bank for Reconstruction and Development (EBRD), and Inter-American Development Bank (IDB).¹ All told since 1945, the United States has contributed the equivalent of \$98 billion to the IFIs and it has also agreed to provide another \$96.6 billion in callable capital.² The latter is a legal obligation of the United States but (as noted below) only about 12% of the total has been appropriated.

This report discusses the ways the United States funds its participation in the IMF and the multilateral development banks (MDBs). The IFIs differ in the ways they finance

¹ For information on the IMF and the multilateral development banks, see CRS Report RL32364, *The International Monetary Fund: Organization, Functions, and Role in the International Economy*, and CRS Report RS20793, *Multilateral Development Banks: Basic Background*. For information on the U.S. policy process, see CRS Report RS20791, *Multilateral Development Banks: Procedures for U.S. Participation*. For information on the amounts contributed to each MDB, see CRS Report RS20792, *Multilateral Development Banks: U.S. Contributions FY1990-2002*.

² This includes the first two U.S. payments to the IBRD, which were funded by a public debt transaction rather than by appropriations. It also include \$525 million IDB Social Progress Trust Fund, an account funded by the United States in 1961 and administered by the IDB. The U.S. quota in the IMF stands at about 37.15 billion SDR. The Special Drawing Right (SDR) is the IMF's unit of account. Based on prevailing exchange rates, the value of the U.S. quota at the end of 2004 was about \$55 billion.

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their operations. Consequently, the procedures the United States uses to fund its financial support for each IFI also varies from organization to organization.

This report has two parts. First, it discusses how U.S. contributions are negotiated and authorized. Second, it explains the procedures the United States uses to appropriate funds or otherwise approve U.S. financial support for the IFIs.

Authorizing U.S. Contributions

Negotiating an IFI Funding Plan

For the most part, there is little difference in the way the Administration negotiates or Congress authorizes new U.S. contributions to the IFIs. The Treasury Department manages U.S. participation in these international agencies. From time to time, the major IFI member countries assess the adequacy of an IFI's financial resources. If they decide that it needs more money for its operations, they will negotiate a new funding plan. In recent years, recipient countries have also been included in some of these negotiations. The agreed funding plan is laid before an IFI's Board of Executive Directors (BED), where its endorsement is more or less automatic. The plan is then submitted to the IFI's members for their approval. In the United States and most other major countries, legislative action is needed to authorize participation in a new funding plan. In some cases, a super-majority vote of the member countries (85% in the case of the IMF) is required to put the plan into effect. Since the U.S. vote is generally larger than 15%, the United States can block approval of funding plans it opposes. U.S. participation is not needed before funding agreements for IDA and other concessional MDB programs can go into effect.³

A particular nomenclature is used in this process. The individuals who represent their countries in the negotiations are called "deputies." An IMF funding plan is called a "quota increase." When countries make their contributions they are said to "subscribe" to the plan. In the case of the World Bank's International Bank for Reconstruction and Development (IBRD) and the other market-based loan windows of the regional MDBs, a new funding plan is called a "capital increase." Countries are also said to "subscribe" when they make their contributions to an MDB capital increase. For the World Bank's International Development Association (IDA) and the concessional-rate loan windows of the other MDBs, however, new funding plans are called "replenishments." Countries make "contributions" to these plans.

Authorization Legislation. Only once since 1980 has an IFI authorization bill been enacted by Congress through the "regular order" process as separate freestanding legislation. That one exception was the 1989 Inter-American Development Bank (IDB) capital increase, which effected long-sought reforms in the way the IDB conducted its operations. Notwithstanding, Congress has approved legislation since 1980 authorizing

³ For information about replenishment agreements being considered by Congress in 2005, see CRS Report RS22133, *Multilateral Development Banks: Current Authorization Requests*, and CRS Report RS22092, *The World Bank International Development Associations 14th Replenishment (2006-2008)*.

U.S. participation in eight replenishments of the World Bank's IDA, two capital increases of the IBRD, five quota increases for the IMF, and numerous capital increases or replenishments of the other IFIs. In each case, the authorization legislation was included in another measure — the annual foreign operations appropriations act, a larger omnibus appropriations act, or a budget reconciliation bill — which needed to be passed. In several cases, special rules or parliamentary devices were used to shield the authorization language from floor amendment when the larger bill was under House or Senate consideration.

The Senate Foreign Relations Committee has exercised jurisdiction in the Senate for MDB authorization bills. For IMF legislation, it shares jurisdiction with the Senate Banking Committee. In the House, the Committee on Financial Services has exercised jurisdiction for all IFIs.

Appropriations for U.S. Contributions

Market-Based Loan Programs. Before 1981, Congress regularly appropriated money to cover paid-in and the callable portions of U.S. capital subscriptions to the MDBs. Some \$12 billion was appropriated, roughly \$8 billion for the World Bank's IBRD and \$4 billion for the IDB and AsDB.⁴ No similar appropriations were made for the EBRD or AfDB before 1981, as the United States was not then a member of those banks. the Asian Development Bank (AsDB). The \$12 billion is "no year" money, available for disbursement on the order of the Secretary of the Treasury if the IBRD, IDB or AsDB were to issue a call for payment of callable capital.⁵

Since the fiscal 1982 foreign operations appropriations bill was adopted in 1981, no money has been appropriated to pay for callable capital. Instead, the appropriations committees include language in the foreign operations appropriations bill each year authorizing the Secretary of the Treasury to subscribe to a specified number of callable shares worth a specified amount of money for each IFI. The new arrangement was adopted, in part, because most analysts believe a call on callable capital is very unlikely.⁶

⁴ The MDBs' market-based loan windows — IBRD and the "ordinary capital" windows of the regional MDBs — borrow money in world capital markets at the prevailing market rates and lend it (with a small markup) to their borrowers. The MDBs usually borrow at interest rates only slightly higher than those their major member countries pay when they borrow money or float bonds. The MDBs pay their operating costs and build reserves using the net difference between the interest they pay to borrow in capital markets and the interest MDB borrowers pay when they borrow from them. Contributions from the United States and other member countries do not pay the salaries of MDB staff or other MDB operating costs.

⁵ In order to help assure the MDBs advantageous access to the commercial market, their member countries subscribe most of their contributions in the form of callable capital, a kind of guarantee backing. It can only be used to pay off MDB bondholders if an institution goes bankrupt. The bank would have to liquidate all its reserves and other resources before asking its members to pay in a portion of their callable capital sufficient to retire the remaining claims of its bondholders. Calls would be on a *pro rata* basis, with each country being expected to pay in its proportion (based on its ownership share in the institution) to cover the remaining sum owed to bondholders.

⁶ The MDBs must exhaust their existing resources before they may call upon their member
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There were also functional reasons for the change. Before the present arrangement was adopted, the Members of Congress would occasionally advocate that major cuts should be made in the budget authority intended for callable capital, claiming erroneously that these cuts would reduce the budget deficit.⁷ Because of these cuts, the amount appropriated for callable capital were sometimes insufficient to match the amount appropriated for paid-in capital, leading to situations where money appropriated for paid-in subscriptions could not be used for want of the matching callable capital.⁸ The present arrangement avoids these difficulties without lessening the effective control which Congress exercises over U.S. participation in these programs. If there were a call on the callable capital the U.S. has subscribed without appropriations since 1981, the Administration would need to ask Congress to appropriate the funds.

Concessional Loans and Grants. For the IDA and other similar MDB programs, Congress is asked annually to appropriate funds to pay for the U.S. share of their current replenishment plan.⁹ The United States does not actually transfer the full

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countries for the callable capital needed to pay their outstanding bondholders. The outstanding debt of each MDB is sizable. However, the debt is payable over many years and the amount due each year to bondholders is relatively modest. Unless an MDB misses an interest payment, the repayment of its debt is not accelerated regardless of the institution's financial condition. As of 2003, for example, the World Bank's IBRD had borrowed \$108 billion to fund its loan program. Of this amount, about \$14.6 billion was scheduled to mature during the next fiscal year and it was scheduled to pay about \$3.5 billion in interest to its bondholders. In 2003, the Bank had equity (reserves and paid-in capital) worth about \$38 billion, in addition to the net fair market value (\$118 billion) of its outstanding loans. The Bank could go almost two years, on the basis of its equity, before it needed to solicit payments of callable capital. The U.S. ownership share in the IBRD is about 17%. Assuming that no loans were sold to raise money to repay creditors and no borrowers paid the Bank anything for outstanding loans, the IBRD would have to sustain some \$85 billion in losses — exhausting its equity and depleting the \$8 billion already appropriated to cover the U.S. share in a \$47 billion call on callable capital — before any new U.S. money would need to be appropriated to fund additional calls on callable capital. In other words, the Bank could continue servicing its debt for four and one-half years before any of the callable capital subscribed since 1980 would be needed. Experience shows that developing countries usually default on their debt payments to bilateral official creditors and to commercial creditors before they cease making payments on their MDB debt. Consequently, the international financial crisis that would accompany any call on callable capital — not to mention one requiring new U.S. appropriations — would be very large. More concern would likely be paid, in that context, to issues affecting the world's major banks and credit markets than to the MDB portion of the crisis.

⁷ The budget deficit is determined by the net relationship between the government's outlays and its income. Though budget authority was appropriated in the old system, no money for outlays was budgeted for callable capital because no outlays were anticipated.

⁸ The MDBs' members subscribe a portion of their capital contributions as paid-in capital, in a fixed ratio (different for each bank) with the callable share. The banks now generally put this money in their reserves as additional protection against a prospective call on callable capital.

⁹ The MDBs fund their concessional loan programs with direct contributions from their member country governments. The International Development Association (IDA) and the comparable programs in the regional MDBs lend to the world's poorest countries at little or no interest charge and with very long repayment periods. Consequently, it is impractical for them to fund their
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sum of its annual contribution to an MDB. Rather, the Secretary of the Treasury pledges that the United States will contribute a specified amount, the money being payable on a particular schedule arranged beforehand by the donor countries and the MDB.

Notionally, the contributions from donors are supposed to match roughly the pattern of disbursements for MDB loans. The banks rarely disburse the full amount at the time their loans are approved. Rather, disbursements occur as work goes forward on the project or program funded by the loan. The MDBs draw down their donors' pledged contributions at a roughly comparable pace. Consequently, in the U.S. congressional budget process, only a portion of the budget authority (BA) appropriated each year for the IDA and other similar programs is scored as requiring outlays during that fiscal year. The remaining outlays are laid to future years, as the MDBs draw upon their donors' contribution pledges.

International Monetary Fund. Before 1980, the United States generally treated any increase in its IMF quota as an exchange-of-assets. That is to say, the U.S. Treasury Department considered that — once an increase in the U.S. quota had been authorized — it could swap assets with the IMF (a draw on the U.S. quota in exchange for a new U.S. credit in the Fund) without additional action by Congress.

A country's quota in the IMF is basically a line of credit that it extends to the IMF.¹⁰ The Fund may borrow against that line of credit whenever it needs money to finance its own loan programs.¹¹ Countries receive a new credit on the IMF's books when their currencies are used in this manner, so no net transaction is deemed to have occurred from an accounting perspective. As a practical matter, though, the lender country provides the IMF with usable cash while the IMF provides the country with an interest paying credit.

IMF loans (called "purchases") carry interest rates (called the "rate of charge") which are slightly higher than the average its major member countries pay when they

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operations through commercial borrowing. It would cost the donor countries more to subsidize the interest charges for such borrowing than it does for them to make their payments directly to IDA and the other programs.

¹⁰ The method the IMF uses to fund its lending operations is a hybrid involving both borrowing and direct payments by member country governments. On a few occasions — notably the Oil Facility in 1974-5, the Supplemental Financing Facility in 1979-81 and the Strategic Reserve Facility in the late 1980s and 1990s — the IMF has borrowed money on market-related terms from governments or central banks and relent those funds with an appropriate markup. However, the IMF funds the bulk of its loan operations with money borrowed through the quota process from the treasuries of its major member countries.

¹¹ Countries subscribe a small portion of their quotas in usable world currencies and the rest in their own national currency. The IMF deems that only a portion (currently about 46%) of the money subscribed as quotas is "usable." The IMF cannot readily use the national currencies subscribed by most developing countries to fund its loan programs. These currencies are not readily acceptable in world markets and their use would likely cause major shifts in their exchange values, hurting the economies of the countries that issued them. Consequently, the IMF borrows most of the money it uses to fund its loan operations from the countries, such as the United States, Japan, Britain, or the countries of the euro zone, whose currencies are most readily acceptable in world markets.

borrow money commercially. (Technically, the IMF's borrowers purchase internationally acceptable currencies with an equal value of their own currency.¹²) As the IMF receives repayments ("repurchases") from its borrowers, it pays back the countries whose quota resources were used to fund the loan. The IMF pays interest (called "rate of remuneration") to the countries whose quota resources are used in its operations. The IMF pays for its operating costs and builds retained earnings with the net difference between the interest it pays to borrow quota resources and the interest that borrower countries pay when they borrow from it. Quota payments from the United States and other member countries are not used to pay the salaries of IMF staff or other IMF operating costs.

The appropriations committees were not satisfied in the late 1970s with the exchange-of-asset method for funding U.S. participation in the IMF. They maintained that appropriations were necessary to meet the requirement in the U.S. Constitution that "No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law." (Article I, Section 9.) The Treasury Department argued, by contrast, that it had the authority to make quota transfers to the IMF under existing law, that any arrangement would be unworkable if an appropriation were needed every time the IMF sought to draw against the U.S. quota, and that some Members of Congress might seek to use the money intended for an IMF quota subscription for other purposes if it were included in the annual appropriations bill.

A compromise was agreed to in 1980 which sought to satisfy these concerns. Under the current arrangement, Congress must pass an appropriation as well as an authorization before the United States may subscribe to any new quota resources in the IMF. However, the appropriation consists solely of budget authority. No outlay authority is provided. Consequently, the appropriation committees have control (comparable to that exercised by the authorizing committees) over the size of the contingent liabilities the United States assumes through additional quota subscriptions. No outlays are available in the appropriation to attract interest in their possible alternative use. Money can be readily paid to the IMF when it needs to draw against the U.S. quota on the basis of the exchange-of-assets perspective on these transactions. Payments back to the United States, as the IMF restores funds previously drawn against the U.S. quota, are available for reuse by the IMF on a future occasion rather than being treated as a miscellaneous receipt of the U.S. Treasury (as are repayments for foreign aid) which would require new appropriations before the IMF could draw them again.

¹² The borrowers must buy useable currencies from the IMF because foreigners will not accept their currency to fund purchases and settle debt. Furthermore, by the time countries come to the IMF for help, their currency is falling in value compared to the dollar, euro, pound sterling, yen or other usable currencies. Often, even their own citizens do not wish to hold their currency. Even if the borrower's currency loses value during the period after it receives its IMF loan, it must repay the IMF the same value in international currency when it repurchases its currency from the IMF.